How the IMF became part of Egypt's problem

By Amr Adly

The past decade has witnessed a rising role of the IMF and World Bank in financing and influencing policy and institutional change in a growing number of middle- and low-income countries in the Global South. In the Middle East and North Africa (MENA), the IMF has significantly increased its involvement in Egypt, Tunisia, Morocco, Jordan and Sudan. This was an unmistakable signal of troubled finances and deteriorating macroeconomic conditions in MENA in the wake of the 2008 Global Financial Crisis and the Arab revolutions of 2011 and 2019.

This article discusses the IMF's engagement with Egypt as a poignant example of the broader abovementioned trends. Whereas the IMF's initial involvement in Egypt was allegedly to help reform its economy and regain financial stability, just six years later the country is struggling to generate enough dollars to service its huge external debt. Ironically, the IMF has become Egypt's largest creditor. In turn, Egypt is the Fund's second biggest debtor after Argentina, owing $18 billion to the IMF.[1] Hence, not only has the IMF not contributed to solving Egypt's economic problem, but it has also become a part of the country's debt problem.

Despite the IMF's active involvement in managing the country's macroeconomy since 2016, Egypt seems to be back to square one. The country needs yet another IMF bailout, inflation is soaring, and the Egyptian pound has gone down by 50 per cent against the US dollar over the past 12 months. Food inflation is at an historic high.[2] With nearly half of the Egyptian population living on less than $2 a day, the bulk of their income is spent on food.[3] Soaring food prices have therefore had a severe impact on them.

Facing a huge financing gap of $17 billion in 2023/2024,[4] the Egyptian government is desperate to attract foreign capital in the form of credit and investments. Much of the sought-after capital inflows will be used to service Egypt's existing foreign debt commitments, estimated at $22.9 billion in 2023 (with principal repayment making up 73 per cent of the sum).[5] With the IMF the country's biggest creditor, Egypt will be literally raising money regardless of the economic or political cost to pay the IMF, lets it fail to meet its external commitments.

IMF austerity 'medicine': Both bitter and inefficient

In 2016, Egypt sought the IMF's help to stabilise its finances.[6] After four tumultuous years in the aftermath of the 2011 revolution, the country had nearly depleted its foreign reserves. It was running huge external and budget deficits, growth was low and unemployment high. A deal with the IMF was reached in November 2016, which involved a sharp devaluation of the Egyptian pound.[7] Harsh austerity measures followed, including subsidy cuts and less social spending. In return for its compliance, Egypt received a $12 billion loan from the IMF as part of an external financing package that also facilitated Egypt borrowing an additional $9 billion from international markets.

The three-year deal was deemed a success by the IMF.[8] The Egyptian economy showed strong signs of recovery. Growth rates and employment went up. Inflation was brought under control. The economic recovery had admittedly come at a high social cost, with "official" national poverty rates increasing by 5 per cent in four years (2015-2019).[9] This was justified, however, as part of the bitter medicine Egypt had to take: A necessary price to pay for longer-term growth and stability.

However, almost immediately after the IMF deal officially expired in late 2019, Egypt ran into further trouble, laying bare the unsustainable nature of its recovery. In March and May 2020, Egypt received an additional $7.9 billion support from the IMF.[10,11]

It became clear by that time that Egypt's 'recovery', much celebrated by the IMF and World Bank, was driven largely by a staggering increase in external borrowing – from 30.4 per cent in 2018 to 35.5 per cent of GDP in 2022. During the same period, foreign debt service to current receipts jumped from 15.3 per cent to 23.1 per cent. In absolute terms, Egypt's external debt stock almost doubled from $79 billion in 2017 to $156 billion in 2022.[12] Meanwhile, its external debt service almost quadrupled during the same interval, from $7.3 billion to $26.3 billion.

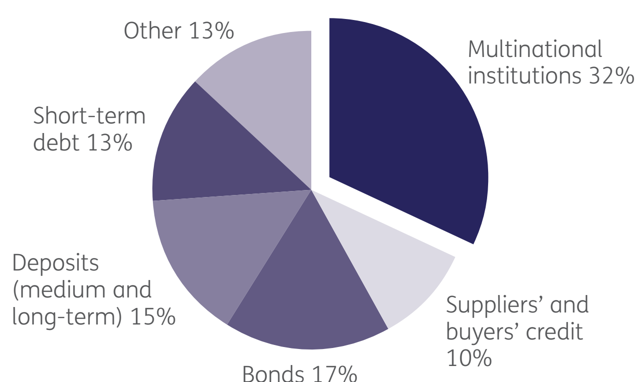
The IMF's debt-driven recovery after 2016 provided Egypt with access to international financial markets. Specific features of the IMF deal created ideal conditions for attracting short-term debt. The sharp devaluation of 2016 led to high local inflation rates. This in turn was countered by local interest rate hikes that left Egypt with the highest real interest rates in the world between 2017 and 2021.[13] The ratio of short-term debt to net international reserves increased steadily from 24.3 per cent in 2017 to 28.9 per cent in 2021 and 31.4 per cent in 2022, respectively.

This worked well as long as interest rates on the dollar were low. However, as the US Federal Reserve hiked interest rates, combined with the impact of the war in Ukraine, Egypt witnessed a brutal outflow of up to $20 billion between February and March 2022.[14] Egypt was virtually cut off from international financial markets from the first quarter of 2022. This created major problems for the country to borrow in the dollars needed to roll over its growing foreign debt.

Egypt's debt stock is increasingly multilateral

Multilateral institutions currently hold one-third of Egypt's foreign debt stock, with the IMF's share standing at 42 per cent of its total multilateral debt. In 2022, debt service figures were predominantly made up of principal repayments (82.6 per cent of service versus 17 per cent for interest payments).[15] As mentioned, much of this principal is owed to the IMF and other multilateral lenders that have recently extended medium-term credit to Egypt. This is a serious problem because unlike bilateral debt or bonds, IMF loans cannot be rescheduled or renegotiated, let alone forgiven.

Egyptian external debt by creditor (%) – Average (2017-2022)



Given these deteriorating conditions, Egypt had to restart its negotiations with the IMF, seeking yet another loan. A new IMF deal, reached in January 2023,[16] became a precondition for securing capital inflows from the Gulf Cooperation Council countries,[17] either in fresh credit or through the large-scale sales of state-owned assets to foreign, namely Gulf, investors.[18]

The need to reform how the IMF deals with countries like Egypt is clear. The extended engagement of the Bretton Woods Institutions in MENA has only exacerbated long-standing problems of financial instability, social inequality, environmental degradation and rising poverty. In anticipation of the upcoming World Bank and IMF Annual Meetings in Morocco, a mechanism for rescheduling IMF loans - or writing them off in some cases - by debtor countries is badly needed. This is already demanded by a number of global civil society organisations, which invoke the right to development and basic economic and social rights as basis for judging and guiding future interventions of international financial institutions.[19] In a similar vein, there have been mounting demands for abolishing IMF surcharges, which are extra costs levied by the Fund on debtors already facing problems paying back.[20] IMF surcharges "are estimated to increase IMF borrowing costs on average by 64.1 per cent",[21] penalising the very economies the Fund claims to be helping. In Egypt, one of the countries in the region affected by surcharges - along with Jordan[22] and Tunisia[23] - the total projected costs of IMF surcharges between 2021 and 2030 is $1.5 billion.[24]

But, these are just the first steps in a long marathon to make the Fund and Bank meet their international political and economic human rights obligations, and the development requirements of the Global South.

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